RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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April 20, 1988 **LETTER 989**

Apr. 8 DJIA 2090.19; PTI 2700; A-D Ratio -8.18
Apr. 15 DJIA 2013.93; PTI 2697; A-D Ratio -8.93
Current Dow Yield: 3.47%; Dow P/E: 15.1
Dow 200-day mov aver: 2190; DowPow: 770

THE PROBLEM: The US trade balance jumped back to a bearish $13.8 billion deficit for Feb. What caused it was a 7.5% increase in imports. The dilemma: If the US wants to cut down on imports it has to cool off its consumer-buying frenzy. But if that happens, the economy could go into recession. And a recession is the last thing in the world Washington wants.

Aside from the trade balance mess, what's happening? New all-time stock market highs in Japan, mergers and takeovers continuing at a white-hot pace in the US, a rise in the US leading indicators, US factories producing at a fat 87% of capacity, retail sales holding up, auto sales OK, consumers still reasonably optimistic. And the market? At its recent April 12 high of 2110.08, the blue-chip D-J Industrial Average had recouped only 38% of its bear market losses -- still a sub-standard performance.

I've stated repeatedly that after a crash, a full 50% recovery of bear market losses is par for the course. In the past such retracements have been almost automatic. Thus, the lagging performance of the Dow can be looked at two ways: (1) The performance of the Dow since the crash has been so laggard that one must wonder what lies ahead for the US, or (2) the Dow can still be expected to recoup 50% of its bear market losses (which would take the Dow to around 2230) before the bear market advance expires. Which of these two premises is the correct one? I don't know -- neither does anyone else.

How about an opinion? What do I "think" the market is telling us? My own feeling is that the stock market is looking past 1988 and its presidential election, looking past all the current semi-rosy statistics -- looking forward to 1989 and its almost guaranteed major collection of problems. Next year will represent the sixth year of a peace-time economic recovery, a recovery that has been built on years of budget-busting and a collapsed dollar plus frightening levels of debt in almost every segment of the US economy from government to consumers to corporations.

As the authoritative *Bank Credit Analyst* puts it, "Although the signs are still preliminary, it appears that growth and inflation are gaining momentum. If so, the decline in interest rates since October is over and the threat of a replay of last autumn in world investment markets is rising rapidly. In the end, a major slowdown or recession in the US is unavoidable and deflationary pressures will reassert themseves in due course." (from the latest April issue, phone: (514) 398-0653).

Meanwhile, the Fed is playing the game of "wait and see." Up to now the Fed's been patting itself on the back for the great job it's done in containing the market crash and its aftermath. Now the Fed has a new list of worries: No. 1 on the worry list is that the continuing economic recovery will spur inflation. That, of course, would mean higher interest rates. But with debt piled sky-high in every corner of the US economy and with the Southwest's banking and thrift industries in shambles, the Fed is worried (this is major worry No. 2) that any important rise in interest rates could send the economy over the edge -- with debt spiraling into the wild blue yonder.

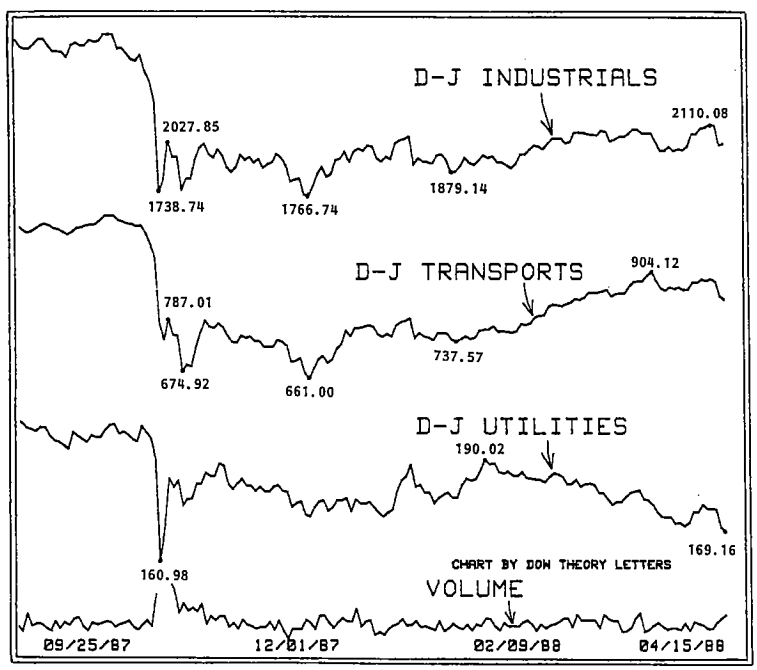
In the meantime, the bond market has literally taken over as the "watchdog of the US economy." At the slightest hint of inflation, bonds sag (as rates simultaneously rise). By the same token, at any sign of deflation or a business slowdown, bonds rally (thereby lowering rates). The stock market, it appears, is the prisoner of the bond market, and stocks pop or fade with each rally or decline in the bonds. And if the truth be known, the Fed too (despite all the talk of its independence) has been merely following the lead of the bond market.

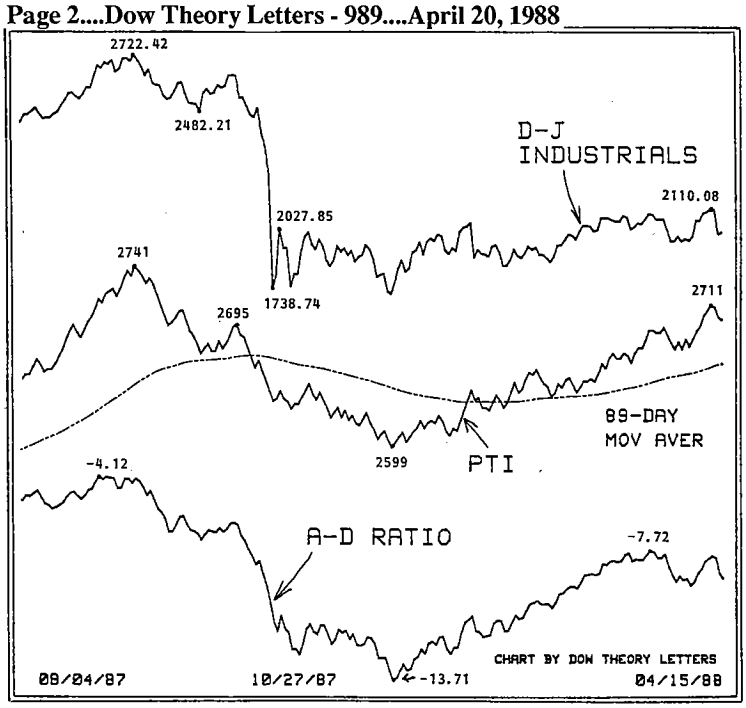
PRICE ACTION: With the 101-point Dow drop of April 14, the complacency of the bulls was a bit ruffled. But as far as I'm concerned, the action was merely symptomatic of an ongoing bear market.

In view of this, let's study the market's position in terms of the Averages. The D-J Utility Average (often a bellwether) recorded its recovery high back on January 29 at 190.02. The Transportation Average recorded its recovery high of 904.12 on March 23.. Finally, the D-J Industrials rose to an unconfirmed high of 2110.08 on April 12, I would treat these three highs as "post-crash recovery peaks" until proved otherwise.

So far the post-crash rally has been mostly a matter of strength in takeover and merger stocks plus an upside parade in the secondary issues. This gave rise to the 'buying stampede" (starting December 4) which I described in recent Letters. The advance-decline ratio recorded its high on March 17 (page 2 chart). By March 25 the A-D ratio had dropped a full point from the high; the buying stampede came to an end.

My Primary Trend Index (PTI) advanced above its 89–day moving average in early-January (see page 2 chart) and has been in a rising



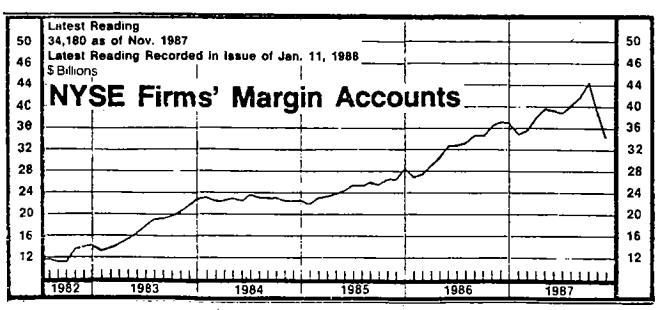


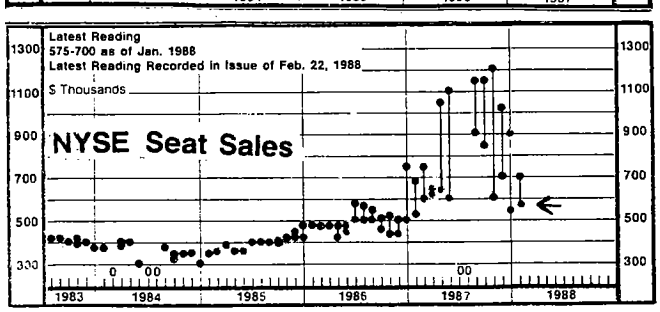
trend ever since. I have subscribers who read and follow these Letters for no other reason than to monitor the PTI. Many of these "PTI traders" jumped into the market and will stay in until the PTI breaks below its moving average. But for the great majority of my subscribers, I have suggested standard Dow Theory procedure. *This entails being fully invested in bull markets and being out of stocks during bear markets.*

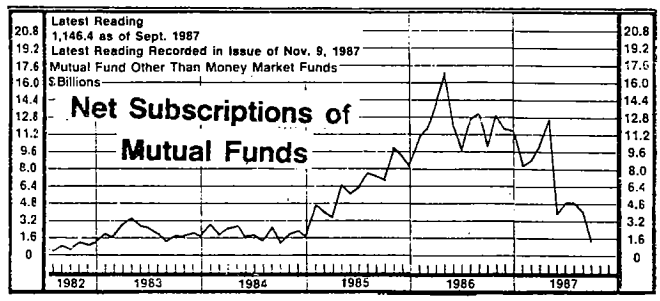
As of last week the yield on the Dow had dropped to 3.35%. Put another way, the Dow was selling at 30.1 times its dividends. At the same time, the S&P 500 was selling at 29.1 times earnings. On both counts, the market is most definitely overvalued and again (as it was in mid-1987) skating on thin ice.

The rest of the nation may not know it yet, but Wall Street knows that it is in the grip of the bear. The latest statistics (my thanks to Ed Hyman of CJ Lawrence for these) show that in February "a little money went into bond mutual funds and a little money came out of stock mutual funds." On balance, net mutual fund sales dropped to $1.1 billion. That's down from $14.7 billion during February 1987 -- a drop of 93%. Do you wonder why Wall Street is unhappy?

Further evidence of Wall Street's problems is seen on these three charts (charts courtesy of Media General's *Financial Weekly).*







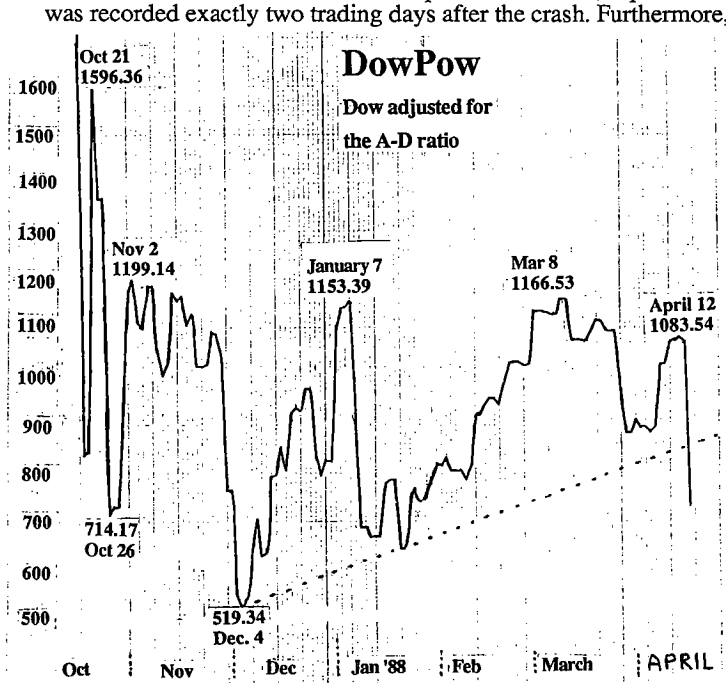
England's *Financial Times* provides yields of the various world stock indices and averages. Here are a few world yield statistics to ponder: USA 3.50%, France 4.40%, W. Germany 2.69%, Mexico 1.04%, Netherlands 4.92%, Switzerland 2.45%, UK 4.41%, and Japan (get this) at an average yield of 0.52%.

INVESTMENT POSITION: Some call him bruin, others call him ursis. On Wall Street he's called the bear, and it's the bear that rules the box at this time. Many people can beat the bear -- but there's a caveat. They usually beat the bear -- for a while. In the end, holding "good stocks," intermediate-term investing, in-and-out trading, they all end up as an expensive hobby when the bear market is in force. But "each man has to kill his own snakes," and each person has to learn in his own way.

The government giveth and the government taketh away. The attack on single premium life insurance is now on, and it seems only a matter of time before the benefits of this "tax shelter" are history. That will leave only one major tax shelter left -- municipal bonds. The munis have the biggest and strongest constituency in the nation behind them -- 45,000 mayors and governors. Which is why I personally like munis even during the bear market. I also like cash, muni cash funds, T-bills, and a smattering of gold.

DOWPOW: The discussion of DowPow in the last Letter proved to be timely. I had noted in that Letter that despite the so-called "strength" in the major composite averages, DowPow has been singularly unwilling to break out above its trading range (a trading range that has been in force ever since the Crash of '87).

Note on this daily chart that the Nov. 2 peak in DowPow at 1199.14 was far below the Oct. 21 peak of 1596.36, a peak that was recorded exactly two trading days after the crash. Furthermore,



the successive peaks of January 7, March 3 and the most recent of Apr. 12 have all been below the Nov. 2 peak.

I noted (see last Letter) that the persistent refusal by DowPow to better preceding peaks was a sign of the market's internal weakness. Furthermore, I noted that the abysmal performance of DowPow was an indication that a "bearish potential" was building up.

On April 14 a bit of that bearish potential surfaced as the Dow dropped a thumping 101.46 points, accompanied by crushing downside breadth of 147 advances and 1593 declines. This resulted in a huge drop of over 350 points in DowPow. The drop took DowPow well below its March low. DowPow also violated a rising trendline that has been in effect since the December 4 low (see chart).

Conclusion: I believe that DowPow is telling us in no uncertain terms that the bear is alive and that he is becoming a bit restless. If or when DowPow breaks below its December low of 519.34, that action would probably signal the end of the post-crash corrective rally.

PTI: Back in the late 1960s I began a search for a device that might keep me on the "right side" of the market despite anything the market might do. My new device was not to be a method or a system or a rule. What I wanted was a vehicle that was based totally on the *action of the market.* In other words, my new device had to be geared to the action of the market itself.

I spent roughly three years researching various indicators, averages, and combinations thereof. *Finally, I came up with my Primary Trend Index (PTI) an amalgam of eight different market indices and averages, each based on the action of the market.*

I have computed my PTI on a daily basis ever since early 1971. And in every issue of Dow Theory Letters since 1971, I have included a chart showing the daily action of the PTI along with its longer-term moving average. During the 16 years that I have been charting the PTI, this device has always kept me on the right side of the market. Over the years the PTI signals have tended to be early, although occasionally a signal has been coincident or even a bit late. But the point is that the PTI has definitely kept me on the right side of the market. And I say this despite the fact that on a number of occasions what the PTI was saying was directly opposite to what I thought "should be" happening on Wall Street. In the end, the PTI always had "more brains" than I did.

The PTI does not consider market overvaluation or undervaluation, it does not take into account market sentiment or yield or margins or odd lots or the short interest. The PTI deals only with what the market is actually doing. Furthermore, the PTI formula is automatic and totally objective. The PTI allows for no subjective opinions, nuances, gradations, or guesses.

I am including here a point & figure chart of the PTI going back to 1982. This is a 4x12 chart in that each box on the chart equals 4 points on the PTI and only rallies or decline of 12 points or more are shown. Thus, the chart concentrates the action of the PTI over the past 15 years.

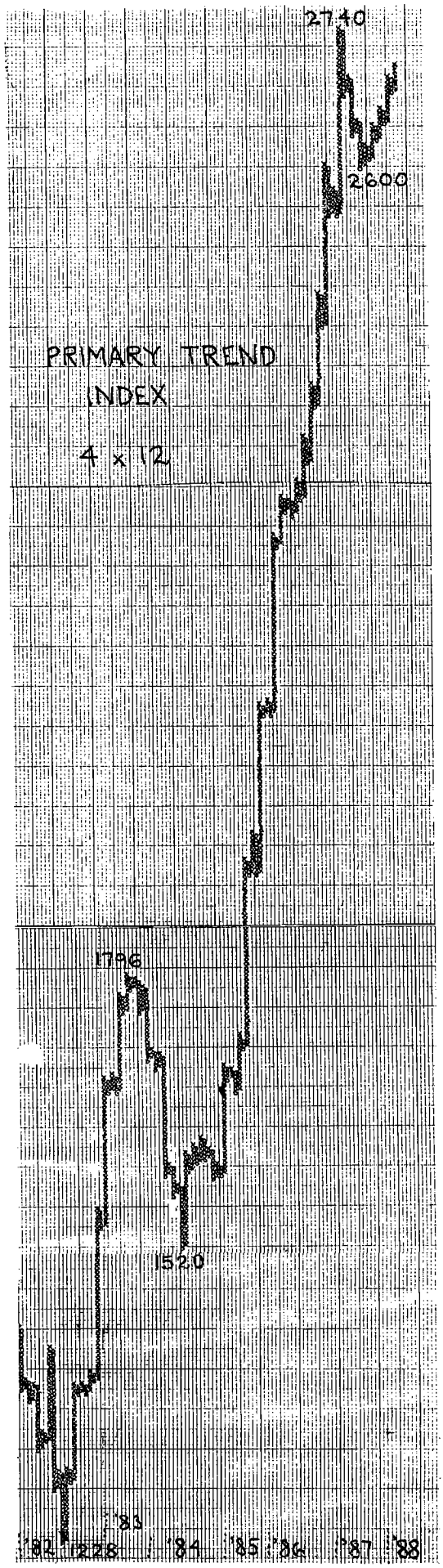
The reason I am publishing this chart is that it dramatically illustrates the great rising spike that has formed since 1984. From the 1984 low of 1520, the PTI rose to an August 1987 high of 2740, an incredible advance of 1220 points. All this occurred without a single major correction in the PTI.

There are two ways of looking at this chart. One can say, "Look at the unbelievable power of the PTI. It's never stopped going up." Or one can say, "Gulp, 1220 points of rise without a serious correction. The reversal, when it finally arrives, is bound to be horrendous."

On October 12 the PTI gave a sell signal. Note that following the spike to the 2740 area, the PTI dropped to 2672, rallied up 16 points, and then turned down again. When the PTI broke below 2668, it fell below the previous decline low. Thus, a first sell signal was rendered. The sell signal was followed by the great October 19 crash.

Since then the PTI has rallied to its March high of 2711. But as you can see on the chart, the PTI is now forming what could be a potential important top.

Now a top must be considered just a trading range until that top is completed. The completion of a top requires a breakdown. The total breakdown of the structure shown on the P&F chart would come only if the PTI drops below its December low of 2599.



I included this study because I wanted to show the extent of the uncorrected 1984 to 1987 rise in the PTI. Ultimately, the PTI will correct that rise, but first the top must be completed. Is this the top that we are seeing now on this chart? I suspect it is, but what is so alarming is that if the PTI is moving into a bear market phase, then based on what we see on this chart, the declining phase for the PTI has barely begun.

BONDS: As I stated on page 1, the bond market (which sets long-term interest rates) may be the dog today with the stock market as the tail. At any rate, bonds have never been more important than they are today, and I'm getting a lot of letters with questions about bonds.

First, let me say that I don't think that now is a great time to jump into the bond market. Why? Because I don't think interest rates are that attractive today. And second, I don't like (that's a mild way of putting it) the way the Utility Average, which is extremely sensitive to interest rates, has been acting.

In other words, I don't advise willy-nilly buying of bonds. I do suggest that you make a detailed study of the bond market before you do any buying. Furthermore, I suggest that if you buy bonds you do so with a definite strategy in mind. The strategy I suggest is periodic buying of bonds, say on a fixed dollar amount every quarter (every month if you're wealthy enough). The advantage of this procedure is obvious. You will be averaging into the yield cycle, buying bonds at high yields and low yields and constantly increasing your income. Ideally, by the way, the way to think of bonds is in terms of income, not assets. *You keep pushing up your bond income and in due time the asset side of it will take care of itself (via the magic of compounding).*

Next, I don't like bond funds. Why? Because unlike an actual bond, there's no promise when you buy a bond fund that you'll ever get your money back. When you buy a bond, that bond has a definite maturity date of eight years or 10 years or 30 years. At that time you'll get back $1000 or par for your bond. When you buy a bond fund, if the fund management does a lousy job or if the bond market happens to go into the tank, the price of your bond fund goes down. Once down, there's no promise or guarantee that you'll ever get your money back. That, in a nutshell, is why I do not like bond funds.

How about the so-called unit trusts as opposed to bond funds? Unit trusts are simply collections of bonds lumped together and sold as units. Thus a trust may have $25 million worth of assorted bonds, and the units are offered at say $100 unit. The units can be OK, and I do own some. There is generally a load charge when you buy a unit although there is usually no charge to sell. I tend to buy the units when interest rates are high, and the units seem like bargains. Some outfits such as Nuveen run a secondary market in their own unit trusts, and often the older units are more attractive than the newly issued units. Have your broker check on what's available in the secondary market in units.

Any advantage in unit trusts? The advantage is (1) diversification, and (2) you can usually buy small amounts, often in multiples of around $100. Unit trusts are offered in all types of bonds including muni bonds from individual states (in which case they are free of state and fed taxes).

All right, how do you buy individual bonds? First, let me say that I personally am not buying Treasury bonds now, mainly because I think that muni bonds are a better buy for me. I can buy AA-rated California long maturity bonds (free of federal and state taxes) for a current yield of around 7.75% vs. T-bonds with a yield of about 8.75%. For me, from a tax standpoint, the munis make more sense. This is particularly true since I believe that taxes are headed up after this year (yeah, even if Jesse Jackson isn't elected president).

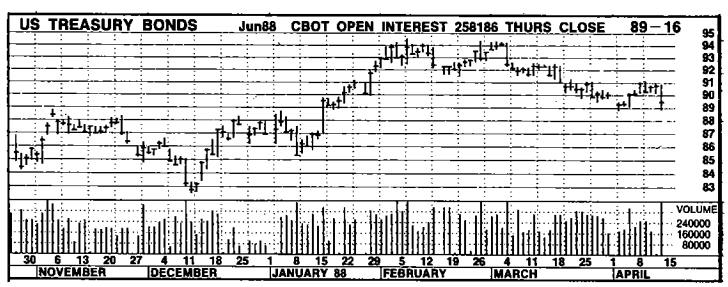
So again, how do you buy individual bonds? You buy them through a good broker, a person (preferably) who specializes in bonds. You also check around among a number of brokerage houses, getting quotes on the type of bond you want. After a while you'll develop a feel for the bond market, and in my opinion there's just no substitute for this process. Bonds are not like NYSE stocks where you get one quote and that quote (at the moment) holds regardless of whether you buy the stock at Shearson or Merrill or Smith Barney (of course, the commissions can differ). The quotes for the same bond (or the same type of bond) can vary considerably from house to house, and it can make a difference if the bond is held in house inventory or if the house is quoting you on a bond that they have to go out into the open market to buy. Most brokerage houses issue a daily list of the bonds that they hold in inventory. Furthermore, you can make a lower bid on a bond. If the bond market is sloppy, the house may take your lower bid.

Most larger bond issues are rated (for credit-worthiness) by Standard & Poor's or Moody's. These two agencies may rate a given bond a bit differently. Moody's is known as a slightly tougher rater than S&P. In general, any bond rated A or better is considered "investment grade." I usually like AA bonds which are between Arated and the highest rated which are AAA. Occasionally I will buy an A1 (A+) rated bond, but put it this way -- I like highly-rated bonds. I don't buy junk (junk is in the B rating category).

I never buy an insured bond. If a bond needs insurance, I don't want it. In other words, I want a bond to be able to stand on its own merit. Most insured bonds are rated AAA. I couldn't care less. If we go into a deep depression, many bonds will fail, and the insurance company gets into financial trouble. Then what is the insured AAA-rating worth? Not much, as far as I'm concerned.

In closing I might add that I have looked over a lot of the junk bonds, bonds that have financed leveraged buy-outs. Many of these companies have gone so deeply into debt that I don't for the life of me see how they're going to stay alive during the next economic downtrend. This is also true for companies that have gone deeply into debt in order to thwart takeovers. Frankly, in the next recession I believe we're going to witness debt distress on a scale not seen since the Great Depression. Actually, we're seeing a load of debt distress now -- when the economy is still rosy. Can you imagine what we're going to be facing when the next recession hits?

As an update on bonds, here's a daily chart of the June contract from *Investor's Daily*.. As you can see, the bonds have been in a bearish phase since last January. My own feeling is that the Treasuries are in a wide 12-point trading range with 95 at the top and around 83 at the low. I believe the near-term picture may be inflationary (bad for bonds), but I also feel that the longer-term picture is deflationary -- which would be good for bonds, but only for high-grade bonds. For junk bonds deflation could be deadly. Currently, I look for support on the June contract in the 85 1/2 to 87 1/2 area.



NOTES & QUOTES: "Action Jackson" has thrown the Democratic party into a frenzy. It now seems difficult (impossible?) for the Dems to deny Jackson the Vice-Presidency without offending the entire black, various minority, and super-liberal segments of the population. However, to win, the Dems must win 70-plus electoral votes from the South. But a Dukakis-Jackson ticket would be the one least attractive to Southern whites, many of whom are turned off by Jackson and not particularly attracted to the Duke. (Russell conclusion: The pressure will continue on Cuomo to enter the fray.)

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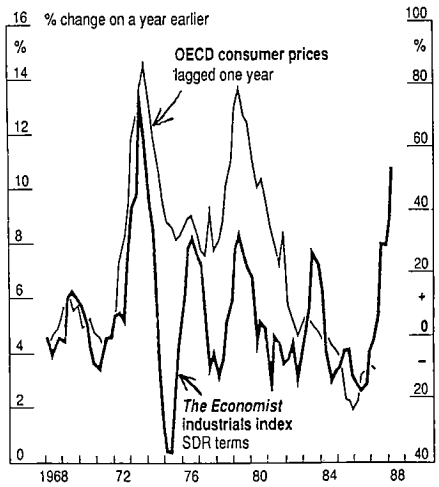
Inflation: this chart from the London *Economist* has proved to be one of the best indicators of inflation (far better than the CRB Futures Index). If the chart runs true to form, it is saying that inflation is about to heat up. If that's true, the bonds have probably topped and the pressure will increase on interest rates (particularly short term) and on stocks.



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Question: Why did the post office boost the price of a first-class stamp from 22¢ to 25¢? Answer: To soften the shock when they boost the price to 30¢.

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Money Pressures: The pressure of massive savings plus high taxes on real-estate transfers have sent Japanese real estate prices through the roof. In 1986 residential housing prices in Tokyo rose 35.9%. In 1987 prices exploded 68.9%. The word is that prices have edged down a little so far in 1988.

With the Nikkei stock average at record highs, the major Japanese stocks are providing dangerously low yields. For instance, Honda yields 0.3%, Matsushita 0.4%, Hitachi 0.5%, Sony 0.6%, Fuji 0.2%, NEC 0.2%.

* *

Debt: The long-hoped for secondary market for Third World debt isn't happening. The debt-for-bonds Mexican plan has proved pretty much of a non-event. And due to some extent to the stock market crash plus the move toward safety and conservatism, investors seem singularly disinterested in buying the discounted debt of Third World countries. Despite the disinterest, a number of US firms continue to try to come up with acceptable Third World debt-packaging schemes (companies include Drexel, Merrill Lynch, Morgan Guaranty, Salomon, Shearson).

Canadian Robert Campeau, with $1.6 billion in assets, has for the second time bought a corporation with assets greater than his own (first acquisition was Allied Stores bought for $3.34 billion). The latest is Federated Stores for which he'll shell out $8.8 billion ($6.6 billion for the stock and the rest for loan and acquisition costs). Lawyers' fees for the Federated deal -- $200 million. Most of the money Campeau must raise will be in short-term debt and from the sale of pieces of Federated. What does Campeau pray for? That's easy -- continued "good times."

Jim Grant (*Grant's Observer,* 233 B'way, NYC 10279) keeps an index of Third World Debt, and the Index is now at 45 (i.e., 45 cents on the dollar). Grant notes that Argentina is now bid 27, Mexico 48. Panama, in the low 20s, states Jim, is now considered "sub-canine."

* *

You may not be aware of it, but there are around 150 stock exchanges around the globe. For instance, Hong Kong has four exchanges, Italy has nine, Japan has eight, Brazil has three, and there are exchanges in such diverse countries as India with six, Iran (one), Israel (one), Peru (one), and Switzerland (seven). The US has a few as well including the Boston Stock Exchange, Midwest (Chicago) Stock Exchange, Cincinnati Stock Exchange, Pacific Stock Exchange, Amex, NYSE, Philadelphia Stock Exchange, Intermountain Stock Exchange (Salt Lake City), and the Spokane Stock Exchange.

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Dow Industrial Stocks: Here are a few current facts. The highest Dow yielders are GM at 6.9%, Union Carbide at 6.0%, Allied-Signal at 5.5%. Lowest yielders are McDonalds at 1.1%, Merck 2.4%, Goodyear 2.4%, Alcoa 2.6%. Highest P/E ratios: USX at 65, Proctor at 29, Merck 24, Amer. Express at 23. Lowest P/Es are Goodyear 5, GM 7, Sears 9, United Tech. 9, Allied-Signal 9. Based on historical yield cycles, *Investment Quality Trends* of La Jolla judged only two Dow stocks to be "undervalued" and they are GM and IBM. The following are judged to be "overvalued": Goodyear, Int. Paper, McDonalds, United Technologies, USX, Westinghouse, Woolworth.

* *

The money going to top performers in sports is moving toward the astronomical. In baseball Ozzie Smith is now getting $2.3 million a year. Michael Jordan in basketball just signed the most lucrative contract in sports -- he's getting $28 million over 8 years or $3.5 million a year (Magic Johnson is getting $3 million a year over the next seven years). And then there's boxing: For the Tyson–Spinks fights heavyweight champ Tyson will pick up over $20 million, Spinks $13 million, the biggest sports paychecks of all time. ... Mull this one over: Americans spent $750 million in '87 on baseball cards, twice as much as the $350 million they spent on major league baseball tickets!

* *

Going Up: Last year the Japanese spent a record $12.7 billion on US real estate. This represented a jump of 70% over 1986. Up to now the Japanese have preferred Honolulu, LA, NYC, San Francisco. In '85 those four cities accounted for 81% of Japanese real estate purchases, and 67% in '86. But the new magnets for Japanese purchases are reported to be Orange Country (Calif.), San Diego, Boston, Chicago, Miami, Phoenix, Seattle.

* *

US corporations are swapping their equity for debt at a pace that is alarming many conservative observers. In 1984 long-term corporate (non-financial) debt growth was under $20 billion (12-month basis) As of January 1988 the rate was $127 billion. Today annual corporate interest payments take up 21% of all (non-financial) corporations cash flow. The only times this was topped was during the deep recessions of 1974 and 1982. So today we are operating at a ratio comparable to deep recession lows.

With debt absorbing such a huge percentage of cash flow during good times, what can we expect when the next recession hits and cash flows slow? What we can expect is a rash of major bankruptcies probably unmatched since the Great Depression of the '30s. This is what scares people me. The debt picture could turn the next recession into a depression. (Note: During 1987's fourth quarter, debt was replacing equity at the rate of $100 billion a year -- and much of that debt was in the form of "junk bonds.")

* *

You think we get hit with taxes? Try Australia. A subscriber just sent me an ad from an Australian newspaper with the following auto quotes (in Australian dollars): a Porsche 1986 911 Cabriolet $145,000, a 1985 Targa $119,000, a 1987 928 $205,000, and so on. He writes, "How come so dear? Taxes, taxes and more taxes. Start off with a 140% import tax, then add 32% sales tax on the previous total and things begin to compound nicely. Are people still buying cars? You bet, the streets are full of them. Why? They have become a form of speculation. Incidentally, there is only one Porsche agency in the entire country, and the market is fiercely controlled. Australians love controls and regulation, and loathe and fear competition."

* *

What's San Diego got? It's got mountains and the desert to the east, it's got the Pacific Ocean to the west, it's got Mexico to the south, it's got Orange County and LA to the north. It's also got the best weather in the world. The result: It seems that suddenly everyone wants to live here. What does all of this do to home prices? Well, for 1988 prices will be up 12.2%, the biggest jump since 1980.

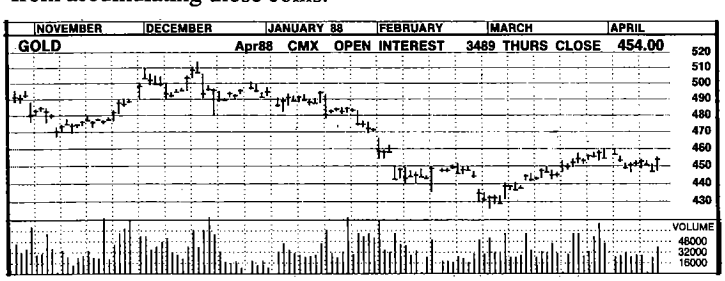
GOLD: Subscribers write wanting to know how to accumulate gold in small quantities. Easy, buy Krugerrand or American Eagle coins in 1/2, 1/4 or 1/10-ounce sizes. The Maple Leaf also comes in small sizes. That's all there is to it.

I don't know how often I've written this, but here goes again: You don't buy gold to make a killing. You buy gold -- just in case ... . "Just in case what?" you ask. Just in case all the things that could go wrong, do go wrong. Just in case the dollar collapses, just in case war breaks out, just in case the banking system caves in, just in case there's a debt crisis and nobody trusts dollars anymore, just in case we go into wild inflation ... just in case.

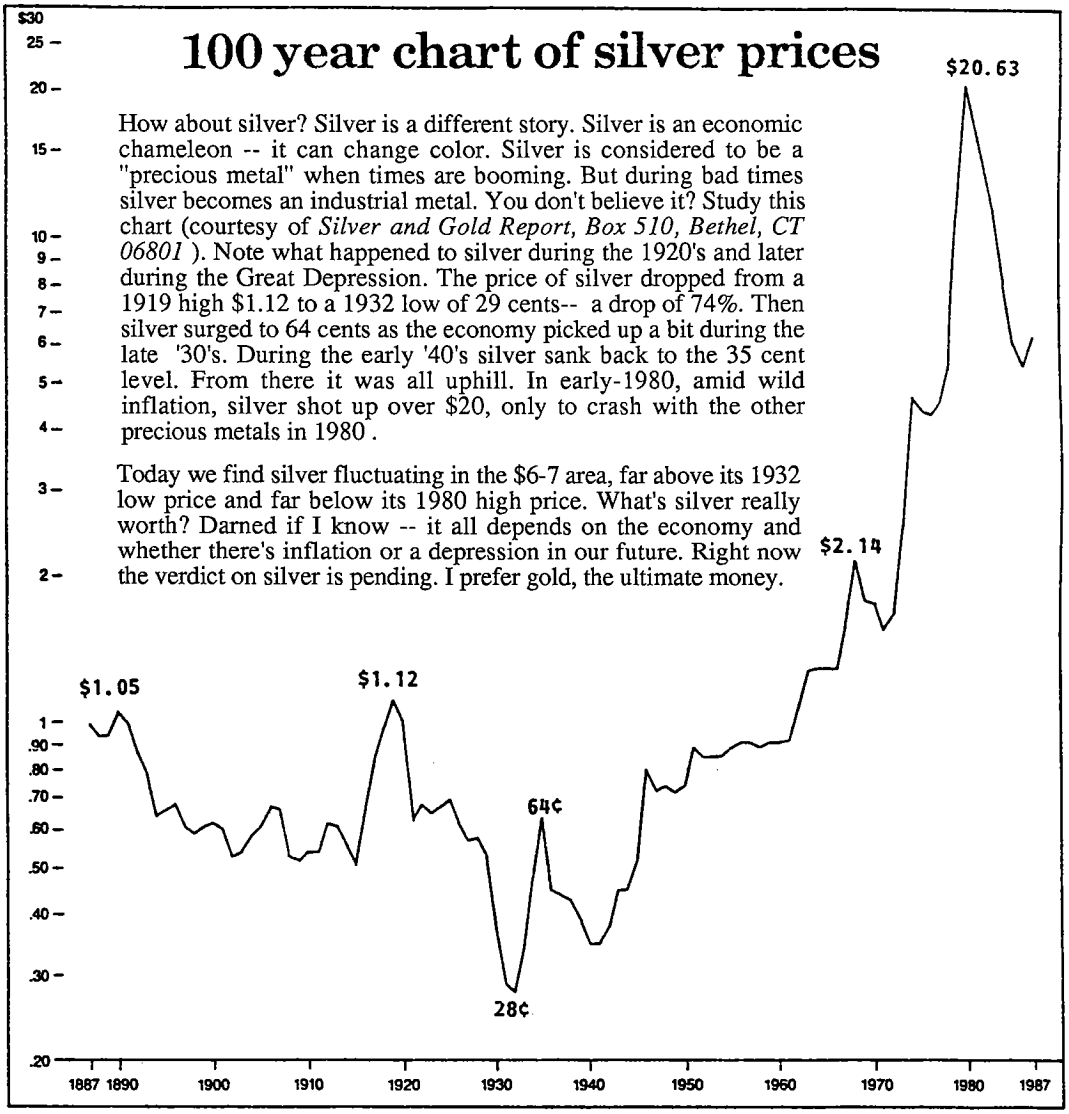
Gold is unlike any other item that you may buy, even including diamonds (because diamond prices are largely controlled by the diamond cartel). Gold is real money and its price isn't controlled by any group or nation. Nor is gold anyone's liability, nor is gold legal tender by government edict. Gold doesn't need anyone's edict or OK. It's got intrinsic value and men have spent their lives looking for it and some men have killed for it.

Furthermore, gold's got a market, and what a market. The price of gold is quoted every minute of the day, 24 hours a day, around the clock. You can at any time buy or sell an almost unlimited quantity of gold. You don't have to search for a buyer or a seller -- they're there, by the thousands -- across the face of the globe.

What's happening in the world of gold? Like the bonds, I see gold in a trading range, a range bordered by 440 on the downside and 500 on the upside. This *Investor's Daily* chart shows the recent price action in the April contract. The action has been unexciting, and I expect it to stay that way for a while. But that doesn't stop me from accumulating those coins.



LATE NOTES: Since the December 4 low the D-J Transportation Average has been by far the strongest of the three Dow Averages. In view of this, it was strange to see the Transports refuse to confirm the April 12 new recovery high (2110.08) in the Dow. The Utility Average (see page 1 chart) topped out two months before (on January 29), and the A-D ratio had already signaled an end to the "buying stampede" (see last Letter). Therefore, it was no great shock to me when the Dow smashed 101 points on April 14.


100 year chart of silver prices
How about silver? Silver is a different story. Silver is an economic chameleon -- it can change color. Silver is considered to be a "precious metal" when times are booming. But during bad times silver becomes an industrial metal. You don't believe it? Study this chart (courtesy of *Silver and Gold Report, Box 510, Bethel, CT 06801*). Note what happened to silver during the 1920's and later during the Great Depression. The price of silver dropped from a 1919 high $1.12 to a 1932 low of 29 cents-- a drop of 74%. Then silver surged to 64 cents as the economy picked up a bit during the late '30's. During the early '40's silver sank back to the 35 cent level. From there it was all uphill. In early-1980, amid wild inflation, silver shot up over $20, only to crash with the other precious metals in 1980 .
Today we find silver fluctuating in the $6-7 area, far above its 1932 low price and far below its 1980 high price. What's silver really worth? Darned if I know -- it all depends on the economy and whether there's inflation or a depression in our future. Right now the verdict on silver is pending. I prefer gold, the ultimate money.
$30
25
20
15
10
9
8
7
6
5
4
3
2
1
.90
.80
.70
.60
.50
.40
.30
.20
$20.63
$2.14
$1.05
$1.12
64¢
28¢
1887 1890
1900
1910
1920
1930
1940
1950
1960
1970
1980
1987

Since Janaury my PTI has been saying that the intermediate trend was up, but at the same time DowPow was telling us that the uptrend was a weak one -- so weak that it has been unable to rally DowPow out of its congestion area.

It imay be a bit early to say it, but I feel that there is a good chance that the post-crash rally has come to an end. The smash of April 14 certainly reversed the market's upside momentum. On April 15, the D-J Utility Average closed at a post-crash low of 169.16 -- hardly an auspicious sign. The D-J Transportation Average has now broken decisively below its rising trendline (the last of the Dow Averages to do so).

This kind of action is discouraging to bulls, murder on traders, and a sleep-loser for fund managers. As for my subscribers, I trust that you are safely on the sidelines. Once this bear market gets going again on the downside, I feel that it will be merciless.

Thought: Two days after the crash, the Dow was at 2027.85. As this is written, six months after the crash (and after a lot of optismistic buying), the Dow is below 2000. The losses are beginning to build up again. It's a bear market all right.

NEXT MAILING: May 4